

LOUISIANA INSURANCE
RATING COMMISSION

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Bulletin and Directive LIRC 97-01

DATE: FEBRUARY 7, 1997

**TO: ALL PROPERTY AND CASUALTY INSURANCE COMPANIES
MAKING RATE AND RULE FILINGS IN LOUISIANA**

RE: TIER RATING PLANS

The purpose of this Bulletin and Directive is to bring to the attention of property and casualty insurers certain provisions of Louisiana law which are used as guidelines under which tier rating plans are considered for approval by the Louisiana Insurance Rating Commission (LIRC).

For the purposes of this Bulletin and Directive, a "tier rating" plan is defined as a rating plan that provides different rate level for substantially similar rate classifications within a single company or among companies within a group (i.e., common management) based upon underwriting criteria. A tier rating plan's underwriting criteria is used to place an insured within a tier based on demonstrably different risk characteristics.

Louisiana law provides the following:

La R.S. 22§2.A.(1) provides that "Insurance is a business affected with the public interest and it is the purpose of this Code to regulate that business in all its phases."

Louisiana Revised statutes (La R.S.) 22§652 provides that "No insurer shall make or permit any unfair discrimination in favor of particular individuals or persons, or between insureds or subjects of insurance having substantially like insuring risk, and exposure factors, or expense elements, in the terms or conditions of any insurance contract, or in the rate or amount of premium charged therefor, or in the benefits payable or in any other rights or privileges accruing thereunder. This provision shall not prohibit fair discrimination by a life insurer as between individuals having unequal life expectancies."

La R.S. 22§1404 (2) provides that *"Rates shall not be excessive, inadequate or unfairly discriminatory."*


La R.S. 22§1459.B provides that *"The commission paid by each casualty, surety, fidelity, guaranty and bonding insurer doing business in this state to its agents in this state, shall be uniform and equal as to all classes of agents of said insurer throughout this state."*

These and other provisions of the Louisiana Insurance Code are applicable to tier rating plans. In applying these provisions, the following LIRC guidelines apply.

- The LIRC directs that all insurers using tier rating plans use rates that are not unfairly discriminatory. Risks with substantially similar risk characteristics must be placed in the same tier.
- Acceptable differences in agent commission can contribute to the difference in rate level between tiers. A tier rating plan where agent commission is the sole distinguishing characteristic to place a risk in a tier or the sole characteristic that differentiates rate level between tiers is not in the public's best interest.
- The difference in rate level between tiers must be substantively greater than the difference in underlying agent commission and reflect the expected difference in risk.
- A tier rating plan filing must clearly set forth the agent commission scale used within each tier, the relative difference in rate level between tiers, and the criteria relied upon to place a risk in a given tier.

Tier rating plans that are not currently in compliance with this Directive and Bulletin must come into compliance no later than April 2, 1997, 12:00 p.m., the cutoff for the April LIRC agenda.

If you have questions regarding this Bulletin and Directive, you can reach LIRC staff at (504) 342-5202.



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